

STATE OF VERMONT
CLAIMS AUDIT OF SELF FUNDED LIABILITY AND
WORKERS' COMPENSATION PLANS
AS OF JULY 22, 2011

PURPOSE

Hardy Consulting Services, LLC was requested to assist Madison Consulting Group in performing an audit of the self- insured plans of the State of Vermont. The purpose of the claims audit was to review and assess the State's ability to successfully manage the claims associated with the self-insured plans. This assessment includes a review of the claim file documentation, reserve process and claims management.

DISTRIBUTION AND USE

This report has been prepared for the use of the State of Vermont and Madison Consulting Group in their assessment of the in-house claims processes. It is fully understood that this document may become public information. All distributions of this document should be made in its entirety. Any use or distribution to outside parties may be done only with the prior written consent of the author.

CONDITIONS AND LIMITATIONS

HCS performed the on-site audit of the claims on July 19-July 20, 2011. The audit was coordinated through Mr. Bill Duchac of the Vermont Risk Management Division. Twenty five (25) claim files from each plan, liability and workers' compensation, were chosen at random. The liability claims reviewed were all small, closed property damage claims. Therefore, an additional ten liability files representing larger, open claims were reviewed as well. The workers' compensation claims were all open, lost time claim files.

FINDINGS AND RECOMMENDATION

LIABILITY CLAIMS

In my review of the closed property damage files I noticed a few cases where small reserves were not posted on the file until the file was ready to close. I discussed this with staff who indicated that they would evaluate their reserving procedures for minor property damage claims and make

adjustments where necessary. In my opinion this was not material to the overall reserve adequacy of the liability program.

In my review of the open, complex liability files I noted some files with inadequate reserves. I discussed these files with Mr. Duchac and he agreed to make a full review of all open claim files for determination of proper reserves. I also discussed with Mr. Duchac the importance of placing a reserve on each claim file when a file is created and maintaining appropriate reserve updates as information is developed on a claim.

Most all files were investigated adequately with proper documentation of property damage and bodily injury damages and assessment of liability. Settlement of claims appeared to be done in a good time frame to dispense with long term expenses such as rental and downtime.

WORKERS' COMPENSATION CLAIMS

Reserves were good to very good on all files reviewed. Increases of reserves were timely and controlled by medical treatment and reports, as well as realization of the probability of permanent impairment. There were two files that were being negotiated for final settlement of permanent impairment in large amounts that were not reserved for such settlement. Those particular files were discussed with staff and were to have immediate corrective actions taken.

File investigations were good to very good. Average weekly wages for determination of compensation rate was reflected in all files.

Assignment of Medical Case Manager (MCM) was made on all files in compliance with internal rules. The MCM made contact with treating physicians in a timely manner. There was evidence in files that both the assigned adjuster and the MCM were cognizant of potential addiction problems to the injured worker with the use of prescribed opiates and those concerns were addressed with the treating physician.

In those files involving permanent disabilities to the injured worker, the amount/percentage of permanency was documented and discussions with treating physicians and rating physicians were conducted.

Recorded statements were used in those files requiring such statements to preserve potential testimony of the injured worker and witnesses. It is recommended that recorded statements be obtained on those files that have disputes concerning causality of injury, course and scope of employment or any issue that leads to conflict or disagreement.

On those claims that were in litigation or needed the guidance of a defense attorney, assignment was made to the defense attorney within internal rules and continuous contact for discussion of pertinent issues was had.

CLAIMS MANAGEMENT

The Workers' Compensation Division uses a "team approach" on claims management. This is a very good tool in claims management and cost containment. The team includes the assigned adjuster, MCM and a member of claims management. Some of the rewards of the team approach are early claim settlement, early return to work and reduced overall costs. A "Legacy Team" has been developed to determine the best approach to bring older, stagnant claim files to a conclusion. Such plans indicate very good, proactive thinking and approaches to claim management.

RECOMMENDATIONS AND CONCLUSIONS

It is my opinion that the State of Vermont self-insured liability and workers' compensation plans are above average to other plans reviewed in other audits. The cost control efforts are reflected in reduced costs of loss and LAE. Recommendations for improvement are:

1. Liability adjusters should establish a reserve on each file when the file is opened and use incremental reserving as required by the file information.
2. Workers' Compensation adjusters should continue to push employers for early return to work through the use of light duty job assignments.
3. Reserves on indemnity and medical should be reviewed for amounts paid and remaining reserve, particularly those files with potential permanent impairment, during the quarterly file review.
4. MCM should continue to address long term prescribing of opiates with treating/prescribing physicians.